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# EU Border Measures for the Counterfeit Goods in Transit:

# The Conditions for Customs Seizure

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This dissertation focuses on goods in transit via the EU and trademark infringement. The emphasis is on whether a trademark owner can object to the mere transit of goods that they consider to infringe their trademark. A consideration is given to debate about the fate of infringing goods in international transit and role that EU Anti- Piracy regulation has to play in relation. At this point I examine the definition of "counterfeit goods" besides general definition on "trademark infringement" as they play the distinctive role. Also an emphasis on the ACTA is given at this point.

I also argue on the use of specific provisions in the Anti-Piracy Regulation aimed at preventing import, export and transit of goods as they are overruled by the Trademark Harmonisation Directive, stipulating that mere transit does not constitute trademark infringement.

This subject plays importance as the external transit of non-Community goods is not completely devoid of effect in the internal market. There is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought on to the Community market. As well as there always remains the issue of free movement of goods within the Union.

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**ABBREVATIONS**

| | |
|---|---|
| ACTA | Anti-Counterfeiting Trade Agreement |
| AG | Advocate General |
| Art. | Article |
| BMR | Council Regulation1383/2003 on Border Measures |
| CJEU | Court of Justice of the European Union |
| CTMR | Council Regulation 207/2009 on the Community Trademark |
| CCC | Community Customs Code 450/2008 |
| EC | European Community |
| ECJ | European Court of Justice |
| EU | European Union |
| FTA | Free Trade Agreements |
| GATT | General Agreement on Tariffs and Trade |
| IP | Intellectual Property |
| IPR | Intellectual Property Right |
| No | Number |
| TEC | Treaty Establishing the European Community |
| TEU | Treaty on European Union |
| TFEU | Lisbon Treaty on the Functioning of the European Union |
| TMD | Directive 2008/95 to approximate the laws of Member States relating to trade marks |
| TRIPS | Agreement on Trade Related Aspects of Intellectual Property |
| Vol. | Volume |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade organization |

## INTRODUCTION

Living in the era of technology and information, intellectual property has become one of the most valuable and important assets of the companies. Most of the companies seek to exploit their intellectual property rights by taking advantage of the exclusive rights conferred on them. There is no doubt that exclusive right on intellectual property increases the producers' incentive to innovate and elevate the quality of their goods and services. This benefits both the producer in the simple meaning of income and the consumer by means of enjoying better goods and services with lower prices. The exclusive right and the incentives to innovate on one hand and the competition concerns on the other has raised one of the most problematic areas of the IP Law. The balance between the competition and IPR are settled on a fragile basis leading to a market structure where no room is left for free riders. However this is not as simple to establish.

Counterfeiting and piracy has been a concern in the EU not just because the Intellectual Property Right (IPR) owners incur loss of profit and potential license agreement revenues but also because it raises some other public and governmental concerns. Ever-increasing harm is being done to business (lower investments, closure of Small and Medium Sized Enterprises), society (job losses, consumer safety, threat to creativity) and governments (loss of tax revenue) because of increasing counterfeiting and piracy.[1] The reports which Member States' customs administrations transmit to the Commission under Commission Regulation (EC) No 1891/2004 of 21 October 2004 on their interception of fakes at Community borders provide a fairly

[1]< http://www.europa.eu.int/comm/internal_market/en/intprop/news/index.htm>
date accessed 07 August 2011

accurate indication of changing patterns in counterfeiting and piracy in international trade.[2]

European Union has long been the international port for goods circulating around the world. For example most of the goods shipped from Asia transits one of the EU customs before being shipped for USA. Counterfeiters have been using the transit procedure as a way to conceal the destination and the owner and to grant their goods a fake EU origin. In the meantime the free movement of goods structure within the EU territory is up to some level open to abuse by the counterfeiters who may find a way to release their goods kept in the customs into free circulation. Taking this as a justification point customs of the EU member states has been seizing counterfeit goods in transit within their territory. These practices by the customs have been subject to cases and legislations in the EU. Nevertheless the EU jurisprudence proved to be in insufficient and on several occasions in contradiction within itself. In this paper I will point out the conditions for seizure of counterfeit in transit as means of a border measure and the problems and contradictions covering the area.

Ever since commence of the legislation in the Intellectual Property area the basic principles of exclusivity, exhaustion and territoriality has been in the center of the national and international legislations. Although the primary aim of this paper is to demonstrate conditions regulating customs seizure of counterfeit goods in transit through European Union, without this brief introduction to the main principles it wouldn't be possible to go any further on the main arguments tying the issue. In this respect European Union regulation and directives are the first hand jurisprudence dealing with the subject from the European Union aspect. However European Union

[2] Communication From The Commission To The Council, 'The European Parliament And The European Economic And Social Committee on a Customs response to latest trends in Counterfeiting and piracy' (2005) Brussels COM.

competence is not the soul source of the jurisprudence covering the area and takes its grounds from the international treaties.

Intellectual property protection and enforcement has long been one of the main concerns of the World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT). European Union as a member of the WTO is under the obligation to adjust its legislation and satisfy the minimum requirements. In support of this the first chapter will introduce with an overview of the international Agreements namely; the Trade related Aspects of Intellectual Property (TRIP's) and the principles and minimum obligations provided there under. In pursuit of this the next chapter will explain the provisions concerning the implementation by the member countries and EU competence in adapting the TRIP's provisions. The last chapter will be concerned with the EU regulations and the European Court of Justice[3] interpretation on the seizure of counterfeit goods in transit. As the TRIP's agreement being more general and the EU regulations being more specific in concern with the main subject I will try to indicate the points where EU regulations depart from the TRIP's.

## 1 THE FUNDAMENTAL PRINCIPLES

There are several principles that are accepted to be underlying the provisions concerning the IP protection and enforcement. Although their interpretation and application may differ according to their sources, the notions such as exclusivity,

[3] The TFEU has changed the name of the European Court of Justice (ECJ) to Court of Justice of European Union (CJEU). For consistency concerns this paper will refer as CJEU even if ruled before the amendment.

exhaustion and territoriality are yet to be the key principles giving their shape to the international and national legislation.

## 1.1 EXCLUSIVITY OF INTELLECTUAL PROPERTY RIGHTS AND THE PRINCIPLE OF EXHAUSTION

The owner of a registered trademark shall have the exclusive right to prevent all third parties, who does not have his consent, from using the mark in the course of trade.[4] The mark could be either identical or similar and registered for goods or services that are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion.[5] However, exclusive rights are anticompetitive by nature[6] and if assured without any limitations, trademark proprietors would be able to use their rights to act as a barrier to hinder the free movement.[7]

The principle of exhaustions as one of the most controversial aspects of international trade deals with restriction of the exclusive rights on the IPR's.[8] The principle of exhaustion is vital for the appropriate functioning of the free market

[4] Art. 9 of the Regulation 207/2009 on the Community Trademark [2009] OJ L78/1 (CTMR) and Art.5 of the Directive 2008/95 to Approximate the Laws of Member States Relating to Trade Marks [2008] OJ L299/25 (TMD).

[5] Art.16 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).

[6] Terence Prime, *European Intellectual Property Law* (Dartmouth Publishing Company 2000) 21.

[7] William Cornish, David Llewellyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights; Trade Marks and Allied Rights* (7th edn, Sweet and Maxwell 2010) para1-58; Thomas Hays, 'Paranova v. Merck and Co-branding of Pharmaceuticals in the European Economic Area', [2004] Vol.94 The Trademark Reporter, Official Journal of the International Trademark Association, 835-836.

[8] Keith Maskus, *Intellectual Property Rights in the Global Economy* (Washington D.C., Institute for International Economics 2000) 208; Frederick M. Abbott, Thomas Cottier and Francis Gurry, *International Intellectual Property in an Integrated Economy* (New York, Aspen Publishers 2007) 59-60.

system as if IPR owners were assured without any limitations, they would be able to use their rights to act as a barrier to hinder the free movement.[9]

The countries may and have adapted exhaustion in three ways; national exhaustion, regional exhaustion or International exhaustion.[10] Departed from a history of harmonization the European Union has adapted the regional exhaustion where the trademark owner puts once the goods on the market or with his consent the rights in relation to that goods are deemed to be exhausted.[11] Consequently trademark owner can no longer be allowed to control distribution of the goods and to prohibit the resale of the goods sold by him or with his consent.[12]

Most of the uncertainties concerning the application of the exhaustion rule stem from the ambiguities that exist regarding the status and treatment of intellectual property rights under European law[13], which are commonly designated under the guiding principle of 'territoriality'[14].

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[9] Cornish, Llewellyn and Aplin (n 7) para1-58; Hays (n 7) 835-836.

[10] For ECJ interpretation of regional exhaustion See C355/96 *Silhouette International Schmied GmbH & Co KG v Hartlauer Handelsgesellschaft* Case [1998] ETMR paras 539.

[11] Michael Blakeney, 'Enforcement Of Intellectual Property Rights: Challenges, Remedies And Public Awareness' [2004] WIPO National Seminar On Intellectual Property For Faculty Members And Students Of Ajman University

< http://counterfeiting.unicri.it/docs/wipo%20national%20seminar%20Ajman.pdf> date accessed 07 August 2011.

[12] For ECJ interpretation of consent See Joined cases C-414/99, 415/99 and C-416/99 *Zino Davidoff v A&G Imports* [1999] ETMR 700.

[13] Guido Westkamp, 'Intellectual Property, Competition Rules, And The Emerging Internal Market: Some Thoughts On The European Exhaustion Doctrine' [2007] Vol.11 Marquette Intellectual Property Law Review < http://law.marquette.edu/ip/Westkamp.pdf > date accessed 07 August 2011, 293.

[14] Thomas Jaeger, Henning Grosse Ruse – Khan, Josef Drexl and Reto M. Hilty, 'Statement Of The Max Planck Institute For Intellectual Property, Competition And Tax Law On The Review Of EU Legislation On Customs Enforcement Of Intellectual Property Rights' [2010] No. 10- 08 Max Planck Institute for Intellectual Property, Competition & Tax Law 4.

## 1.2 TERRITORIALITY OF IPR's

The Paris Convention on the Protection of Industrial Property incorporates 'independence' as equated with the principle of 'territoriality' of IPR's as a core principle.[15] 'The territoriality principle preserves the sovereign authority of states to adopt and implement Intellectual Property protections as they consider appropriate, within the framework of a general set of rules'.[16] "Neither international conventions, nor other instruments administrated by WIPO, nor the TRIPS Agreement, create a supranational system of intellectual property rights protection; they just create minimum standards for intellectual property rights protection."[17] The definition of IP infringement and existence of IP protection depends on a bundle of territorially limited national laws that implement these agreements[18] and allow for restrictions in relation to preventing parallel imports and reimports and, to a certain degree, allowing for restrictions on the product market in which protection may be offered[19]. As a part of the national definition of the concept of infringement, national law therefore also principally determines the question of whether there is jurisdiction over goods in transit.[20]

"Traditionally, national legislatures and courts have approached potential extraterritorial application of IP law with considerable caution, recognizing the

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[15] Art.46 Paris Convention for the Protection of Industrial Property (1883, as amended.).See also Abbott, Cottier and Gurry (n 8) 65–70.

[16] Frederick M. Abbott, 'Seizure of Generic Pharmaceuticals in Transit Based on Allegations of Patent Infringement: A Threat to International Trade, Development and Public Welfare' [2009] Vol. 1 World Intellectual Property Organization Journal
< http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1535521> date accessed 07 August 2011, 43.

[17] Abbott, Cottier and Gurry (n 8) 603.

[18] Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 4.

[19] Westkamp (n 13) 293.

[20] Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 4.

problems that would arise in attempting to extend local control to economic activity taking place (and fundamentally regulated by) foreign legislatures and courts."[21]

The principle of territoriality has been losing its practical significance under several legislative practices. These practices are; harmonization of the national legislations with the EU Directives and adaptation of the EC regulations integrated with the general principles and obligations under WTO and the TRIP's and applied in whole European Union territory.[22] In this regard although the national territories remains the same the practical importance of the principle of territoriality is evading under the harmonized legislations of the European Union Member States that provide same level protection for IPR's granted under similar conditions. The higher the level of integration becomes, the less it is necessary to rely on rules aimed at safeguarding free movement; at higher levels of integration, the common market approaches a virtual free trade similar to, for instance, the United States.[23]

## 2 TRIPS PROVISIONS CONCERNING BORDER MEASURES ON INTELLECTUAL PROPERTY RIGHTS ENFORCEMENT

### 2.1 GENERAL PRINCIPLES OF THE TRIPS AGREEMENT

As a result of the Uruguay Round of the GATT Agreement on the TRIP's had entered into force in 1995. It was a renewing and extensive multilateral Agreement on

[21] Abbott (n 16) 44.

[22] "This Regulation shall be binding in its entirety and directly applicable in all Member States"; Council Regulation1383/2003 Concerning Customs Action Against Goods Suspected Of Infringing Certain Intellectual Property Rights And The Measures To Be Taken Against Goods Found To Have Infringed Such Rights [2003] OJ L 196 (BMR).

[23] Westkamp (n 13) 33.

Intellectual Property Rights[24]that were prescribed until than. Consequently TRIPS agreement, as a part of the WTO and the GATT, is in direct correlation with the provisions of the WTO agreements providing the legal framework of the international trade practices and relations. In addition to general principles to all forms of enforcement TRIPS Agreement also included three sets of measures, general civil remedies, provisional civil remedies and border measures and minimal criminal measures.[25]

### 2.1.1 The Minimum standards

The key to an efficient and reliable system of Intellectual Property Rights protection lies with as efficient and effective enforcement system. Thus it is possible to say that the IPR enforcement is the most important aspect of the area covered under IP law, as without it IPR's would be incomplete and one-handed. In this regard TRIPS Agreement serves a detailed provisions on the minimum standards that the Members should adopt to comply with their obligations under the agreement.

Though extensive to cover most of the issues relating IP law, TRIPS art.1 (1) entitles, but not obliges, the Members to implement more extensive protection than is required by the Agreement on the condition that they do not conflict the provisions of the TRIPs. Despite some criticism[26] on the fact that the "minimum standard framework leaves TRIPS open to the possibility of divergent interpretation by Members, Art.1.1 has been referred to as a 'pedestal' on which the Dispute Settlement

[24] Art.1(2) of the TRIPS "For the purposes of this Agreement, the term "intellectual property" refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II".

[25] Michael Blakeney, 'Enforcement Of Intellectual Property Rights' (n 11).

[26] Laurence R. Helfer, 'Adjudicating Copyright Claims under the TRIPs Agreement: A Case for a European Human Rights Analogy' [1998] Vol.39 357, 358-363Harvard International Law journal.

Body's jurisprudence rests."[27] This allows countries to determine how best to meet their obligations under the TRIPs Agreement within the context of their own legal system.[28]

At the international level, a group of major trading partners comprising the European Union and its Member States as well as ten other countries, has recently concluded their negotiations on a new international agreement seeking to establish common rules beyond those of the TRIPS Agreement. "The Anti-Counterfeiting Trade Agreement (ACTA) (the latest text dates from 3 December 2010) will oblige members to provide for sanctions beyond those made mandatory by the TRIPS Agreement in cases of infringement of IP rights, and notably in cases of counterfeit and pirated goods."[29]

### 2.1.2 The Ceiling for Border Measures

The preamble of the TRIPS Agreement expresses that with the agreement the members has come to an mutual agreement on their desire "to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves

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[27] Olivier Vrins and Marius Schneider, *Enforcement of Intellectual Property Rights Through Border Measure* (first edn, Oxford University Press 2006) 42.

[28]Appellate Body Reports; *India - Patent Protection For Pharmaceutical And Agricultural Chemical Products AB-1997-5* (WT/DS50/AB/R) [59]; *India - Patent Protection for Pharmaceutical and Agricultural Chemical Products* (WT/DS79/R) [7][41]. See also; Jerome H Reichman, 'The TRIPs Agreement Comes of Age: Conflicts or Cooperation With the Developing Countries?' [2000] 32 Case W. Res. J. Int'l L. 441.

[29] Max Planck Institute for Intellectual Property and Competition Law, 'Study on the Overall Functioning of the European Trade Mark System' [2011] <http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_allensbach-study_en.pdf> date accessed 07 August 2011, 247.

become barriers to legitimate trade." This statement is clear on the side that TRIPS is not only concerned about the minimum protection that the members should provide but also with the extent of the protections provided in national legislations.

As stated above TRIPS states the minimum protection that the members should fulfill. However if left herein, the measures the members take may lead to excessive practices. "This construction may result in a spiral movement- driven by bilateral Free Trade Agreements (FTA's)- towards ever increasing levels of protection, and reducing the flexibilities and the policy space left open under the TRIPS agreement."[30] Such precession would leave the flexibilities inapplicable for the members aiming to benefit from the extension.

In such context the concept of 'ceiling rules' (maximum rights) gains importance. "Ceiling rules provide a binding maximum amount of IP protection WTO members can offer in their national legislation to sustain a balance between IP protection and free trade policies and protect the member states autonomy in preserving public goals vis-à-vis pressure exerted against them in bilateral agreements."[31]

The ceiling rules may be observed in art. V of the GATT regulating the freedom of transit and restricting members to adapt any measure that might limit the freedom of transit and therefore hinder the trade through provision 'seriously damaging the products, or materially reducing their value, or unreasonably increasing their cost' and/or causing 'unreasonable delays'. Article XX (d), with regards to

[30] Annette Kur and Henning Grosse Ruse- Khan, "Enough Is Enough- The Notion Of Binding Ceilings In International Intellectual Property Protection" No. 09-01 Max Planck Institute for Intellectual Property, Competition & Tax Law Research Paper <http://ssrn.com/abstract=1326429> date accessed 04 August 2011, 12-13.

[31] Ibid 1

IPR's, sets an exception to this general obligation by holding that any manner of implementation exceeding the obligations must be necessary to secure compliance with laws or regulations on patents, trade marks and copyrights protection which are not inconsistent with the provisions of this Agreement.

Correlatively, art.1 (1) of the TRIPS agreements entitles the member countries to adapt more extensive provisions on the condition that they do not contradict with the provisions of this agreement. Secondly TRIPS agreement art.51 sentence 2 states that members may extend the application procedure to other intellectual property infringement situations provided that other requirements of the Section are met. In this sense TRIPS agreement when laying the flexibilities also sets the ceilings and limitations as a sort of an auto control mechanism for its members.[32]

## 2.2 TRIPS GENERAL OBLIGATIONS ON ENFORCEMENT

Taking these principles in consideration TRIPS imposes a general obligation upon its members to comply with in implementing the further forms of enforcement. The general obligations set out in art. 41 apply to every kind of enforcement procedure either administrative, criminal or border.

TRIPS art.41 obliges Members to "ensure that enforcement procedures are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered" under. The said article also expects these procedures to 'include expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements'. What is more important for further discussion of the topic dealt in this paper is that the article requires the procedures to 'be applied in such a manner as to avoid the creation of

[32] Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 11.

barriers to legitimate trade and to provide for safeguards against their abuse'. Art.41.2 states that the 'Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.'

On the side of what is not to be understood of the provision art.41/5 contains 'a general declaration that the enforcement of intellectual property rights in a Member country should be in no better position than the enforcement of any other rights'[33]. Furthermore it does not create an obligation with respect to the distribution of resources as between enforcement of intellectual property rights and the enforcement of law in general.[34] The provision sets members states obligation to provide parties with means to pursue their rights which "will inevitably involve the deployment of resources and, depending on the existing level of funding received by the judicial sector in a country, may require the preferential allocation of resources to the judicial enforcement of intellectual property rights."[35]

**2.3 TRIPS PROVISION ON BORDER MEASURE**

Part III of the TRIPS Agreement regulates the enforcement of IPR and section 4 of that part (namely art. 51 to 60) deals with ' Special Requirements Related to Border Measures'. Art.51 of the TRIPS grants the IPR holder to lodge an administrative application before the customs and/or judicial application before the courts for the suspension of release into free circulation and/or exportation from their

[33] Michael Blakeney, "Guidebook on Enforcement of Intellectual Property Rights" <http://trade.ec.europa.eu/doclib/docs/2005/april/tradoc_122641.pdf > date accessed 04 August 2011, 29.

[34] ibid 29.

[35] ibid 29.

territory for the goods, which they believe to be infringing their rights. On its wording this provision could permit the seizure of goods originating within the country served by the customs authority and destined to another (export)[36], goods originating from another country and destined to free circulation (import) as well as good which are in transit, having originated in another country and destined to another after being introduced onto territory without ever released fro free circulation (re-export).[37]

As suggested under TRIPS footnote 12, in cases where 'a Member has dismantled substantially all controls over movement of goods across its border with another Member with which it forms part of a customs union' the country will not be required to comply with the provisions on border enforcement (TRIPS arts.51-60). This implies that, for example, in case of the European Union where goods (community[38] or non-community[39]) duly introduced to Community are free of movement in the union territory, there is no requirement to apply any custom duties or controls measures at the internal borders.[40] In this connection it wouldn't be wrong to make an inference, that the members will have to be extra careful on their external

[36] "Although carrying out of the customs control on exportation is considered more and more as a panacea in the fight against counterfeiting and piracy at the international level, only few WTO members (including China) have implemented a provision to entitle customs authorities to suspend the release on infringing goods for export" Vrins and Schneider, *Enforcement of IPRs* (n 27) 79.

[37] Blakeney, 'Guidebook on Enforcement of IPR's' (n 33) 49; Vrins and Schneider, *Enforcement of IPRs* (n 27) 78-79.

[38] TFEU art.34

[39] TFEU art. 29. See Directorate C, Regulatory Policy, of the Enterprise and Industry DG, 'Free movement of goods - Guide to the application of Treaty provisions governing the free movement of goods' <http://ec.europa.eu/enterprise/policies/single-market-goods/files/goods/docs/art34-36/new_guide_en.pdf> date accessed 09 April 2011.

[40] Vrins and Schneider, *Enforcement of IPRs* (n 21) 77; Jeroen K. Van Hezewijk, 'Case Comment-Montex and Rolex - irreconcilable differences? A call for a better definition of counterfeit goods' [2008] Vol.39 International Review of Intellectual Property and Competition Law, 4

customs control as each member will bear the protection responsibility of not only its territory but also the rest of the members.

Hezewijk states that the formulation of Art. 51 TRIPS may be read as indication that the decisive moment for customs control is not physical importation but the entry into free circulation which might lead to a possibility where a customs union would, on the one hand, "dismantle substantially all controls over movement of goods" but, on the other hand, allow the entry into free circulation of non-customs-union goods to be suspended upon entry.[41] However it seems an arguable position that TRIPS does not allow goods to (physically) enter a customs union - given the absence of "substantially all controls" without being subject to possible border measures, except if they are transit goods with a destination outside that customs union.[42]

## 2.4 EU IMPLEMENTATION OF THE TRIPS AGREEMENT

### 2.4.1 Provisions Concerning Implementation Of Trips In National Law

TRIPs Agreement leaves Members free on determination of the appropriate method of implementing the provisions of the Agreement. On the other hand TRIPS Agreement was brought under the WTO dispute settlement umbrella so that national implementations could be submitted to a WTO panel of experts, whose decision, once adopted by the WTO dispute Settlement Body is binding.[43] In this regard national implementations are subject to supervision within the WTO system. "A specific body, the Council for TRIPS, is in charge of monitoring members' compliance with the

[41] Hezewijk (n 40) 4.

[42] ibid 4.

[43] Blakeney, 'Guidebook on Enforcement of IPRs' (n 33) 17-18.

agreement's obligations."[44] The WTO Agreement establishes a Council for TRIPS, which is required to monitor members' compliance with their obligations under the agreement allowing developing is that states like the U.S and Europe to ask other states to explain their intellectual property laws and whether they comply with the TRIPS Agreement.[45]

### 2.4.2 EU Competence in Implementation

TFEU art. 118 provision authorizing the Council and Parliament for the implementation of the measures are in compliance with the requirements of the TRIPS as it leaves the discretion of, not only how to implement the treaty and which bodies to authorize but also how to allocate its resources, totally to its Members. The decision-making triangle the procedure and the relationship between the three main bodies of the EU (the Parliament, the Council and the Commission) is subject of another title, which will not be discussed in this paper. However the flexibility that the TRIPS Agreement bestows upon its Members does not mean that there are no question marks. On the contrary there are especially two main concerns; one them being the issue of extent of the unions competence to legislate in this area and the other being whether it has exercised its competence or not.[46]

In its Opinion 1/94 the CJEU has concluded that "the community and its member states are jointly competent to conclude the Agreement on the Trade related

[44] United Nations Conference on Trade and Development, 'Training Module on the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights' [2010] New York and Geneva < http://www.unctad.org/en/docs/ditctncd20083_en.pdf > date accessed 07 August 2011, 31.

[45] Peter Drahos, The Universality Of Intellectual Property Rights: Origins And Development <http://www.wipo.int/tk/en/hr/paneldiscussion/papers/pdf/drahos.pdf> date accessed 07 August 2011, 9.

[46] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 44.

Aspects of the IP."[47] The Court found the connection between intellectual property and trade in goods not sufficient to bring intellectual property rights within the common commercial policy of the Community.[48] Therefore, "TRIPs could not fall under the exclusive competence of the Community and if it was to be recognized as such, it would make it possible at the same time to achieve harmonization within the Community and thereby to bypass the internal procedural constraints to which the institutions are subject when they act in order to harmonize internal legislations."[49]

Flowingly, the direct and indirect applicability of the TRIPS provisions has been another concern on several CJEU holdings later on.[50] In its latest decision CJEU has indicated that;

> Where the judicial authorities are called upon to apply national rules with a view to ordering provisional measures for the protection of intellectual property rights falling within a field to which TRIPS applies and in respect of which the European Union has already legislated, they are required to do so as far as possible in the light of the wording and purpose of Article 50(6) of TRIPs, taking account, more particularly, of all the circumstances of the case before

[47] Opinion 1/ 94 on Community Competence to Conclude Certain International Agreements 1994 [1995] ECR I-5276.

[48] Gaëlle Bontinck, 'The Trips Agreement And The ECJ: A New Dawn? Some Comments About Joined Cases C-300/98 and C-392/98, Parfums Dior and Assco Gerüste', [2001] 16/01 Jean Monnet Working Paper <http://oami.europa.eu/en/mark/aspects/pdf/JJ990089.pdf> date accessed 07 August 2011, 4. See also; Judith Hipper Bello, 'Community Competence to Conclude Certain International Agreements' [1995] Vol.89 No.4 American Journal of International Law.

[49] Bontinck (n 48) 4.

[50] C-53/96 *Hermès International v FHT Marketing Choice BV* [1998]. ECR I-3603; Joined cases C-300/98 and C- 392/98 *Parfums Christian Dior Sa v Tuk Consultancy BV Asso Geruste GmbH et al* [2000] ECR I-11307; C-89/99 *Schieving-Nijstad vof and Others v Robert Groeneveld* [2001] ECR I-05851.

them, so as to ensure that a balance is struck between the competing rights and obligations of the right holder and of the defendant.[51]

In light of the holding it is possible to say that where the Community has enacted a legislation both the Community and the National Courts of the EU are expected to take the TRIPS provisions as a guide and decide on case by case basis. The contradicting nature of the courts holdings on the seizure of counterfeit goods proves this implication to be relevant for the border enforcement where EU has already legislated but different judgments have been made depending on their interpretation of the circumstances.

As for the other fields, which the Community has yet not legislated but has, competence over CJEU has concluded that;

> The protection of intellectual property rights, and measures adopted for that purpose by the judicial authorities, do not fall within the scope of Community law. Accordingly, Community law neither requires nor forbids that the legal order of a Member State should accord to individuals the right to rely directly on the rule laid down by Article 50(6) of TRIPs or that it should oblige the courts to apply that rule of their own motion.[52]

Considering the extent and the amount of the regulations and directives issued by the European Union it is more likely to give an affirmative answer to the second question on whether the Community has exercised its competence or not[53].

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[51] *Schieving-Nijstad* (n 50) para 55; *Parfums Christian Dior Sa* (n 50) paras 31-46.

[52] *Parfums Christian Dior* (n 50) para 49 and para 44 stating that "The provisions of TRIPs, an annex to the WTO Agreement, are not such as to create rights upon which individuals may rely directly before the courts by virtue of Community law."

[53] Vrins and Schneider, *Enforcement of IPRs* (n 27) 44.

# 3 EU REGULATIONS CONCERNING BORDER MEASURES ON COUNTERFEIT GOODS

This chapter will be emphasizing on the question of how the EU regulations embody custom authorities seizure of goods in transit, which they suspect of infringing the rights, conferred on them. This will be done through comparing the minimum standard provisions TRIPS imposes and how the European Union has implemented it through several regulations and directives.

The relevant provisions concerning the seizure of counterfeit goods in transit through European Union are present in the Community Customs Code[54] (CCC), the Community Border Measure Regulation[55] (BMR) and the Community Trade Mark Regulation[56] (CTMR) and Trademark Harmonization Directive[57] (TMD). Although they do not all contain a provision regulating the precise problem subject to this paper, they are directly related to each other and relevant for the application and interpretation of the other. In parallel with its objectives, this paper will ground on the BMR and TRIPS and refer to relevant provisions of other EU and international measures where necessary for further purposes.

In correlation with the logical coherence of the TRIPS and the BMR the paper will first argue the meanings of terms 'goods infringing an IPR' and 'transit' as used at the related regulations. In this regard I will be setting the subject matter and scope

[54] Regulation 450/2008 of the European Parliament and of the Council of 23 April 2008 laying down the Community Customs Code [2008] OJ L 145 (Community Customs Code). The BMR refers to the previous Council Regulation (EC) No 2913/92 Establishing the Community Customs Code [1992] OJ L.32.In this regard this paper avoids to refer to the previous regulation and Community Costums Code will be used to refer to Regulation 450/2008 unless otherwise is stated.

[55] BMR (n 22).

[56] CTMR (n 4).

[57] TMD (n 4).

for the application of the BMR. The second step to follow will be the explanation of the application for action, provisions applicable to goods found to infringe an IPR and the liabilities of the customs authorities and the right holders. The third section will be devoted to conditions for the customs authorities to take action.

## 3.1 THE SCOPE OF THE REGULATION

The BMR is based on TFEU 207 and is therefore under the EU's common policy and under exclusive competence of the EU.[58] Border Measure Regulation art.1 provides for two cumulative conditions that have to be fulfilled before customs action could be taken; that is to say that there must be a suspicion that the goods infringe IPR's, and secondly the goods have to fall under of the customs procedures or status in accordance with the CCC.

### 3.1.1 Goods Infringing Intellectual Property Rights

In any case it is apparent that the primary condition for customs action is that there must be an IPR infringement or there must at least exist valid grounds for suspecting that it may take place. The control body to analyze the goods alleged to be infringing IPR's will be the customs authorities, which under normal circumstances will not be able to identify the infringements beyond the vision such as a patent claim or layout design of an integrated circuit.[59] Therefore the TRIP's regulation mentions of counterfeit trademark or pirated goods. Nonetheless, in accordance with the minimum standards principle set out in general obligations and basic principles in art1, TRIPS art.51 sentence 2 allows members to enable application for IP

[58] Jaeger, Ruse – Khan, Drexl and Hilty (n 7) 5

[59] Blakeney, 'Guidebook on Enforcement of IPR's' (n 28) 49

infringements of other nature. Community customs Regulation art2 (1)(c) exploits this provision by expanding the application of TRIPS art 51 to goods that infringe a patent, a national plant variety, designation of origin or GI and geographical designations. This paper will only emphasize on counterfeit trademarks and pirated goods.

#### 3.1.1.1 Counterfeit Goods

##### 3.1.1.1.1 Definition

On the other hand TRIPS Agreement footnote 14, ACTA art. 5(d) and BMR art.2 (1)(a) provides similar definitions for the term 'counterfeit'. Accordingly;

> Counterfeit trademark goods are any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark.

BMR also stipulates that on the same conditions as the goods referred to above at art. 2(1)(a)(i); even if presented separately, any trademark symbol (including a logo, label, sticker, brochure, instructions for use or guarantee document bearing such a symbol) and separately presented, packaging materials bearing the trademarks of counterfeit goods may also constitute a counterfeit good.

Hezewijk argues that the definition of counterfeit goods are "dogmatically imprecise and does not completely overlapping" with the trademark infringement[60]

[60] CTMR art.9 (1) and TMD art. 5 (1) and (2) confers a trademark proprietor to take action against three types of act, which are considered to be constituing 'trademark infringement' situations in

but forms a "subset of the trademark infringement and therefore needs an additional analysis to determine whether goods whose use could be qualified under trademark infringement also falls within the narrower definition of counterfeit goods."[61]

#### 3.1.1.1.2 The scope of the Community trademark

The Community Trade Mark Regulation and Trade Mark Directive confers trademark proprietor to prevent using of its mark in trade without his consent, so the mark on its own does not explicitly constitute an infringement. On the other the definition of counterfeit provided under TRIPS and BMR mentions of 'goods… bearing without authorization a trademark' where no 'use' is mentioned. Although this distinction doesn't seem to be of utmost importance, it may be the focus for transit cases where infringement may not be established due to lack of use in the course of trade in the territory of intended importation, hence also in the customs territory of the country of transit.[62] "Whilst the rights conferred in the TMD are more extensive than those in art.2 (1) of the BMR, they are territorially limited as the offending sign must be used 'in the course of trade' which entails the goods to be put onto the market in the relevant Member State."[63]

Although the definition of counterfeit provided under the BMR does not seem to benefit from the concept of 'likelihood of confusion on the relevant part of the

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general. These are; identical signs registered/applied for identical goods or services, similar signs registered/applied for similar goods or services or signs similar or identical to a trademark that enjoys a reputation but is not registered/applied for similar goods or services that the trademark with reputation is registered for.

[61] Hezewijk (n 40) 7-8.

[62] Max Planck Institute, 'Study on the Overall Functioning of the European Trade Mark System' (n 29) 111-112.

[63] Stephanie Hutchinson, 'In Transition… When Should In Transit Goods be Seized For IP Infringement in EU' [2010] Vol 32 Issue 12 European Intellectual Property Review, 614.

public'[64] to determine the scope of the protection of a trademark; it will have to be applied when determining whether the counterfeited goods infringe a trademark right are those laid down in the Community Trademark Regulation and under harmonized national law of the Member States. [65]

The definition of counterfeit goods under BMR covers only the trademarks that are validly registered[66] under the Community law or Member States national Law. Accordingly any pending trademark applications will not be able to benefit from the border measures provided under this regulation. Additionally BMR explicitly states that trademark proprietor may apply for customs action only in the country where the trademark enjoys protection. According to Schnieder and Vrins, this lack of protection of a right holder in a Member State is open to exploitation by the counterfeiters simply by entering goods for free circulation into the Member State which the right holder will not be able take border measures.[67]

#### 3.1.1.2 Pirated Goods

"Pirated copyright goods" are 'as defined in BMR art.2 (1)(b);

> Any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright

[64] Art.9(1)(b) CTMR and Art. 5(1)(b) TMD.

[65] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 97.

[66] Art.8(2)(c) CTMR and Art. 4(2)(d) TMD considers that well known trademarks to share footing with the registered trademarks.

[67] "However, having the label, sticker and packaging within the scope of counterfeit goods by means of BMR art 2(1)(a) the EU legislator has eliminated the opportunity for counterfeiters to release the counterfeit goods and the counterfeit marks separately, as they use to do most commonly" Vrins and Schnieder, *Enforcement of IPRs* (n 27) 98.

under Council regulation No 6/2002 of the 12 December 2001 on Community designs or the law of the Member State in which the application for customs is made.

Regardless of being registered or not the protection provided under this regulation will be applied to all pirated goods as long as the right holder enjoys protection under the design law of the Community or the member state in which the application for customs is made.

According to Schnieder and Vrins, draftsman of the regulation may have desired to keep customs authorities away from engaging in complex legal considerations and therefore regrettably used the term 'copies' instead of making use of the Community law concepts of 'reproduction' and 'communication to the public' for copyright and neighboring rights and 'design which for the informed user does not produce a different overall impression for designs.[68]

Article 2(1)(b) of the regulation states that for the border measures to be applied the copies have to be made without the consent of the right holder or of a 'person authorized by the right-holder in the country of production'. This wording excludes from the scope of the regulation parallel imported goods from outside the Community (made with the consent of the right-holder but imported into the Community without the latter's consent), and goods produced in violation of a contractual agreement (by licensee of the right-holder).[69]

[68] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 101.

[69] ibid 100.

### 3.1.2 Goods Under Customs Procedures

The second condition that the BMR requires is that the suspect goods should fall under one of the customs procedures or status defined in art.1 (1). There are potential two ways that the regulation recognizes. One is 'when they are entered for release for free circulation, export or re-export in' and the other one is 'when they are found during checks on goods entering or leaving the Community customs territory, placed under a suspensive procedure within the meaning of in the process of being re-exported subject to notification or placed in a free zone or free warehouse'. These procedures are referred and defined under CCC. In any case with the BMR, the European legislature has deliberately gone further than TRIPS requires by broadening the situations in which measures can be taken from just (suspected) importation to 'virtually every customs situation'.[70]

Border Measure Regulation essentially; enables the customs authorities of the Member States to take action in all situations where goods suspected of infringing intellectual property rights are likely too be encountered, including all customs procedures and transshipment, with the exception of internal transit.[71] In the systematic of the CCC, art.135 defines four categories of special procedures that require suspensive measures to be applied and all of which are included in 'all the customs procedures'. These are:

-Transit, which shall comprise external and internal transit;

-Storage, which shall comprise temporary storage, customs warehousing and free zones;

[70] Hezewijk (n 40) 3; Vrins and Schnieder, *Enforcement of IPRs* (n 27) 72. See also; Karel Daele, "Regulation 1383/2003: A New Step in the Fight against Counterfeit and Pirated Goods at the Borders of the European Union" [2004] Vol.214-223 European Intellectual Property Review.

[71] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 76.

-Specific use, which shall comprise temporary admission and end-use;

-Processing, which shall comprise inward and outward processing.

#### 3.1.2.1 External Transit

In accordance with the subject dealt, this paper will only handle the suspensive procedures and especially the 'external transit'[72] procedure (transit). The term 'transit' is not defined under both the BMR and CCC. On the other hand CCCs art.144 states that;

> Under the external transit procedure the goods may be moved from one point to another within the customs territory of the Community without being subject to import duties and other charges and commercial policy measures. Goods placed under this procedure are regarded "as if they had not entered Community territory.[73]

However it must be mentioned that instead of using the term 'transit' like the CCC the BMR refers to acts of release for free circulation, export, re-export and goods entering and leaving the EU customs territory. This leads to the conclusion that BMR "apparently does not intend to apply to every good in transit but makes a distinction between pure transit and the other forms of passage where there may have been found a way to release the goods in the common market."[74] The distinction

[72] "The external transit procedure should not be confused with the 'common transit' procedure where transit takes place between the 25 Member States of the EU and the EFTA countries and the movement of goods between the EFTA countries themselves" Vrins and Schnieder, *Enforcement of IPRs* (n 27) 89.

[73] C-383/98 *Polo/Lauren and PT. Dwidua Langgeng Pratama International Freight Forwarders* [2000] ECR I-02519

[74] Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 6.

becomes even more evident when one takes a look at the case law where CJEU has ruled that the;

> Proprietor of a trade mark can prohibit the transit through a Member State in which that mark is protected of goods bearing the trade mark and placed under the external transit procedure, whose destination is another Member State where the mark is not so protected, only if he can prove that those goods are subject to the act of a third party while they are placed under the external transit procedure which necessarily entails their being put on the market in that Member State of transit.[75]

"While the efficiency militates in favour of an early reaction, by stopping goods in transit so as to keep them away from the markets where they would cause infringement, it is no lees important that for reasons of comity, right holders should not be given too ample opportunity to establish jurisdiction in transit countries for litigation which should appropriately be conducted in the country of origin or final destination."[76] In this regard, I do agree with the view that "the scope of the BMR should be narrowed to include any form of transit only if there is a substantiated threat of;

> - Either trade diversion on to any of the markets of the EU member states;
> - Or of a misuse of the transit procedure for conduct of an illicit activity- judged both under the law of the transit country and the country of destination.[77]

[75] C-281/05 *Montex Holdings Ltd v Diesel SpA* [2006] ECR I-10881, para 23.

[76] Max Planck Institute, Study on the Overall Functioning of the European Trade Mark System' (n 29) 112.

[77] Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 24.

Under the external transit procedure the goods are subject to customs supervision from the moment of entry until the goods and the corresponding documents are produced at the customs office of destination in accordance with the provisions of the procedure in question.[78]

### 3.1.2.2 Manufacturing Fiction

The early use of manufacturing fiction based on art.6 (2)(b) of the former Border Measures Regulation.[79] Although the amended BMR does not provide any corresponding article to the one there use to be, some of the case law appears to maintain the application of the manufacturing fiction based on recital 8 of the current BMR stating that the "proceedings initiated to determine whether an intellectual property right has been infringed under national law will be conducted with reference to the criteria used to establish whether goods produced in that Member State infringe intellectual property rights". In this sense, where the Regulation applied, it was not relevant whether or not the release for free circulation, export or re-export, transshipment or placing under a suspensive procedure, in a free zone or warehouse, were to be considered as such as 'use in the course of trade', where IPR holders are entitled to prevent under national and/or community law.[80]

[78] Community Customs Code Art. 62-63, 136 and 146.

[79] C02/110HR *Phillips Electronics v Postech and Princo.* [2004] (NJ 2007/85)

[80] Olivier Vrins, 'The real story of a fiction: transit after Montex under Regulation (EC) 1383/2003' [2010] Vol.5 No.5 Journal of Intellectual Property Law & Practices, 360.

### 3.1.3 Traditional Case Law

**Montex Case**[81]

The controversy on the application of the manufacturing fiction has started upon the ECJ ruling on Montex v Diesel case which was concerned of Poland orginated counterfeit jeans goods bearing through Germany. The trademark was not registered in Ireland and therefore the owner was not going to be able to prevent entry of the goods into Irish market once they were shipped from Germany. On this basis the owner applied for detention by the German Customs. The question referred to CJEU was whether a trademark proprietor could prevent counterfeit goods bearing his trademark to be put under transit procedure through a member state where the trademark is registered to another where it is not.

The ruling of the Montex decision depends and is in consistency with the holdings of Class International and Rioglass cases, which will be examined in detail below. On the other hand, perhaps the most significant aspect of the Montex is the CJEU's ruling that;

> [N]one of the provisions of the BMR introduces a new criterion for the purpose of ascertaining the existence of an infringement of the trademark law or to determine whether there is an use of the mark liable to be prohibited because it infringes that law'[82]. In fact the decision does not refer to the relevant article of the BMR[83] 'pertaining to application of the transit country's national law of infringement had those goods been produced in that country.'[84]

[81] *Montex* ( n 75).

[82] *Montex* ( n 75) para 40.

[83] Presently Recital 8; Art.6(2)(B) of the ex-BMR.

[84] Vrins, ' The Real Story of a Fiction' (n 80) 362.

Unclear wording of Montex lead to opposite views in doctrine and case law. Some authors[85] are of the opinion that "the case refers to a ficto iuris established by the BMR that allows goods in transit to be assessed as if they were manufactured in the Member State where customs took action."[86] Accordingly the manufacturing fiction was raised in the ruling since Diesel did not invoke this fiction[87] and preliminary question referred to the CJEU by the German court focused solely on the TM Directive.[88]

On the other hand, one can oppose to this position on the absence of reference to specific provision of the BMR that constitutes the grounds for the arguments in favor of manufacturing fiction.[89] Besides it would lead to departure from the principle of IPR independence by ignoring the absence of IP protection in the actual country of manufacture and assume of a direct or substantial effect when there is no harm in or to the country of transit unless there is high level of attenuation.[90] In this regard reading recital 8 as a legal basis for a manufacturing fiction would extend article 2(1) of the BMR from a choice of law rule to a rule on harmonization of substantive IP law in the Member State, which would fall outside of the wording of this provision and overall purpose of the Regulation.[91]

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[85] Frank Eijsvogels, 'Some remarks on Montex Holdings Ltd./Diesel SpA' [2006] Boek9.nl, < http://www.iept.nl/files/2006/IEPT20061109_HvJEG_Montex_v_Diesel.pdf> date accessed 07 August 2011; Hutchinson (n 63); Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 24.

[86] Eijsvogels (n 85).

[87] Hezewijk (n 40) 2.

[88] Hutchinson (n 63).

[89] Vrins, 'The real story of a fiction' (n 80)362.

[90] Abbott (n 16) 48.

[91] Josef Drexl, "EU Competition Law and Parallel Trade in Pharmaceuticals: Lessons to be Learned For WTO/TRIPS?" (ATRIP conference, Singapur, 25 July 2011) 15.

**Polo/ Lauren Case**[92]

Counterfeit Polo Ralph Lauren T-shirts under external transit procedure from Indonesia to Poland (not a Member by than) was seized by Austrian customs. Question referred was whether Council Regulation (EC) No 3295/94 applied to situations in which goods in the course of transit between two countries not belonging to the European Community are temporarily detained by customs authorities, on the request from a right holder from a non-member country.

CJEU, in favor application of the Regulation, has ruled that;

> [T]he external transit of non-Community goods is not completely devoid of effect on the internal market. It is, in fact, based on a legal fiction. Goods placed under this procedure are subject neither to the corresponding import duties nor to the other measures of commercial policy. It is as if they had not entered Community territory. In reality, they are imported from a non-member country and pass through one or more Member States before being exported to another non-member country. This operation is all the more liable to have a direct effect on the internal market as there is a risk that counterfeit goods placed under the external transit procedure may be fraudulently brought on to the Community market, as several Governments pointed out in their written observations and at the hearing.[93]

**Rolex Case**[94]

The was concerned of the Criminal proceedings on China originated counterfeit goods detained by Austrian customs while shipped for Slovakia, which wasn't a

[92] *Polo/Lauren* (n 73).

[93] ibid para 34.

[94] C-60/02 *Rolex* [2004] ECR I-00651

member then.

Referring to the ruling in the civil case of *Polo/Lauren*[95] the national court asked whether a provision of national law did not prohibit the mere transit of goods manufactured/distributed in contravention of provisions of the law of trademarks would it then be contrary to Article 2 of Council Regulation No 3295/94.

The had ruled that it is not for the Court of Justice to rule on the interpretation of national law, which is a matter for the national court alone. If the national court were to find that the relevant provisions of national law do not prohibit and, thus, do not penalise the mere transit of counterfeit goods through the Member State concerned, contrary none the less to the requirements under Articles 2 and 11 of Regulation No 3295/94, it would be proper to conclude that those articles preclude the national provisions in question.[96] Further on the Court concluded that if;

> [C]ompatible interpretation is possible, it will be for the national court, in order to secure for holders of intellectual property rights protection of those rights against abuses prohibited by Article 2 of Regulation No 3295/94, to apply to the transit of counterfeit goods across the national territory the civil-law remedies applicable under national law to other conduct prohibited by that article, provided that they are effective and proportionate and constitute an effective deterrent.[97]

**Rioglass Case**[98]

Lawfully manufactured Rioglass branded windows and windscreens for cars

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[95] *Polo/Lauren* (n 73).
[96] ibid para 58.

[97] ibid paras 59- 60.

[98] C-115/02 *Rioglass and Transremar* [2003] ECR I-12705.

were detained by France customs during their export from Spain to Poland. Upon the manufacturers and transporters request for removal of the detention the French court refereed to the CJEU on the question of whether the obstacle to the free movement of goods (lawfully manufactured in a Member State of the EC which are intended, following their transit through an Member State territory, to be placed on the market in a non-member country) created by that detention under customs control may be justified by the need to ensure the protection of industrial and commercial property referred to in Article 30 EC[99].

On the basis that the "Article 30 EC allows derogations from the fundamental principle of the free movement of goods within the common market only to the extent to which such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property"[100]the CJEU has held that the "Transit…which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States, does not involve any marketing of the goods in question and is therefore not liable to infringe the specific subject-matter of the trade mark."[101] and so rejected the French Governments pleas.[102]

**Class International Case[103]**

Original AQUAFRESH branded toothpastes imported from South Africa were

[99] TFEU Art.28.

[100] *Rioglass and Transremar* (n 98) para 23.

[101] ibid para 27.

[102] Olivier Vrins and Marius Schnieder, ' Trade Mark Use in Transit: EU-phony or Cacophony?' [2005] Vol.1 Issue 1 Journal of Intellectual Property Law and Practices, 4.

[103] C-405/03 Class *International v Colgate-Palmolive Company and Others* [2005] ECR I- 08735, opinion of AG Jacobs.

brought into the European Community at the port of Rotterdam. Upon the request of the trademark owner the goods were detained by the Dutch Customs depending the assumption that they were counterfeit. It was understood the goods did not constitute counterfeit goods in means of the definition provided under art.1 (2) of the BMR 3295/94. The Dutch Court referred the following question to the CJEU;

> Does 'using a sign in the course of trade' within the meaning of Article 5(1) of the Directive and Article 9(1) the Regulation cover the storing, in a customs office or warehouse within the territory of a Member State, of original branded goods, the and/or which are under external transit procedure?[104]

Followed by the reasoning in Rioglass, AG Jacobs has delivered his opinion that detention by the customs is not available for cases;

> [O]ther than release for free circulation, under which the goods have been placed are satisfied, the mere physical introduction of those goods into the territory of the Community is not 'importing' within the meaning of Article 5(3)(c) of the Directive and Article 9(2)(c) of the Regulation and does not entail 'using [the mark] in the course of trade' within the meaning of Article 5(1) and Article 9(1) respectively.[105]

Inspite of the fact that; offering or the sale weights to 'using in the course of trade' within the meaning of TMD art. 5(1) and CTMR art. 9(1) if it necessarily entails putting goods bearing the mark on the market in the Community, the likelihood that the goods will be put on the market in the Community will not be considered to be enough and further evidence is required. [106]

[104] ibid para 22 (1).

[105] ibid para 44.

[106] ibid para 58.

**Sisvel v Sosecal Case**[107]

Perhaps the most explicit use of the manufacturing fiction in the EU arena under the new regulation was in Sisvel v. Sosecal case where district court of The Hague in Netherland allowed detention of a stock of MPEG audio products coming from China and destined for Brazil through transit in Netherland customs. The case has been initiated by Sisvel's request for seizure of the goods based on patent infringement arguments and challenged by Sosecal basing on the argument that there were no infringing actions that could have been imposed on them. According to the judgment when determining on the detained goods nature of an infringement of the intellectual property rights the court had to ask whether the allegedly infringing products "are held to, according to Dutch law and assuming the fiction that there were manufactured here, would infringe the…patents."[108] "Then none of the actions as intended by article 16 of the new APR can be performed with regard to these goods such to include the placing under a suspensive procedure and re-export."[109]

**Nokia Case**[110]

The issue was raised once again in a recent Nokia v HMRC case before the English courts where Nokia requested detention of counterfeit goods being shipped from Hong Kong to Colombia through London Heathrow Airport. The court held

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[107] 311378 / Kg Za 08-617 Sosecal Industria E Comercio Ltda V. Societa Italiana Lo SviluppoDell'elettronica [2008] English Translation available at <http://www.eplawpatentblog.com/PDF_December09/The%20Hague%20DC%20Sisvel%20v%20Sosecal%20EN.pdf> date accessed 07 August 2011

[108] Ibid para 4.7.

[109] ibid para 4.7.

[110] Nokia Corporation v Her Majesty's Commissioners of Revenue & Customs [2009] High Court of Justice Chancery Division Intellectual Property HC 09CO1457, [27 July 2009] EWHC 1903 WL 2207339.

that, under the current BMR, UK customs did not have authority to detain fake goods in transit where claim by the UK trade mark holder based on no direct evidence of third party intention to place on market within EU. The HMRC has also rejected Court of Hague analysis in Sisvel v Sosecal[111] that based on manufacturing fiction.[112]

As Nokia were unable to identify the consignor and the consignee and failed to provide enough evidence to argue that the goods would be diverted into internal market, HMRC rejected the request for detention. HMRC had also based its ruling on the argument that, in order to be considered as counterfeit the goods has to infringe an IPR in the meaning of TMD and CTMR both of which entitles the owner of a trademark to stop using the mark 'in the course of trade'. In the absence of adequate evidence that the goods in transit might be diverted onto the internal market the goods were not capable of constituting counterfeit goods within the meaning of art.2 (1)(a) of the BMR, therefore it was not possible to detain them.[113]

Upon the Nokia's application for judicial review the case was brought before Justice Kitchin J, who applied the CJEU's reasoning in, *Class International*[114] and *Montex*[115] and held that;

> -First, infringement of registered trade mark requires goods to be placed on the market and that goods in transit and subject to suspensive customs procedures do not, without more, satisfy this requirement.

[111] *Sisvel v Sosecal* (n 107).

[112] Abbott (n 16) 47.

[113] Marius Schnieder, ' Fakes in Transit Would not be Counterfeit' [2010] Vol.5 No.1 Journal of Intellectual Property and Practice, 19-22.

[114] *Clas International* (n 103).

[115] *Montex* (n 75).

-Second, the position is different if the goods in the transit procedure are subject to the act of a third party which necessarily entails their being put on the market ("the Montex exception"). But the burden of establishing this rests on the trademark proprietor.

-Third, a mere risk that the goods may be diverted is not sufficient to justify a conclusion that the goods have been or will be put on the market.

-Fourth, the BMR has not introduced a new criterion for the purposes of ascertaining the existence of an infringement of a registered trade mark or to determine whether there is a use of the mark which is liable to be prohibited.[116]

As for the manufacturing fiction where Nokia contended that goods in transit and subject to suspensive procedures might properly be found to fall within the definition of counterfeit goods in the BMR by adopting the manufacturing fiction, Kitchin has stated that the "in my judgement, Recital 8 does no more than indicate that the law in force in the relevant Member State is to be applied in determining whether an IP right has been infringed." Accordingly Kitchin has argued that the manufacturing fiction is inconsistent with the Montex holding and finds no echo in the BMR therefore would substantially extend the rights conferred upon the proprietor of a registered trademark under the CTMR and the TMD.

Appeal judges of the Nokia case[117] and a similar Belgian case NV Koninklijke Philips Electronics v Far East Sourcing Limited[118] decided to refer a question for a preliminary ruling to the CJEU (pending under Case C-446/09), which essentially

[116] C-495/09 *Nokia Corporation v Her Majesty's Commissioners of Revenue and Customs* [2010] OJ C 37, Opinion of AG Kitchin.

[117] Case C-446/09 *Nokia Corporation* [2010] OJ C 37/22

[118] Case C-446/09 *Koninklijke Philips Electronic* [2010] OJ C 24/29

addresses whether non-Community goods in transit from one non-Member State to another non-Member State are capable of constituting 'counterfeit goods' within the meaning of Article 2 (1) (a) of the BMR if there is no evidence that they will be released for free circulation in the EU or be illicitly diverted onto the EU market.[119]

Advocate General Cruz Villalon has delivered his opinion agreeing with the English High Court.[120] In his opinion AG Villalon stated that; the BMR would not support a manufacturing fiction with regards to the trademarks and that it would be incompatible with the earlier case law of the CJEU, in particular in Class International and Montex Holdings, which stressed that 'use in the course of trade' constitutes the essential requirement for activating the protection if IPR.[121] Correlatively AG has followed the rulings of *Montex* and *Class International* and stated with regards to the Nokia case that the "that customs may seize fakes in transit if there are sufficient grounds for suspecting that they are counterfeit goods and, in particular, that they are to be put on the market in the European Union, either in conformity with a customs procedure or by means of an illicit diversion."[122]

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[119] Olivier Vrins and Marius Schnieder, 'ECTA Position Paper Reflection On Goods In Transit Infringing A Trade Mark' [2010] Journal of Intellectual Property Law and Practice < http://www.ecta.org/IMG/pdf/ecta_position_paper_reflection_on_goods_in_transit_21_oct_2010_final.pdf> date accessed 07 August 2011

[120] Combined Cases C-446/09 *Koninklijke Philips Electronics NV v Lucheng Meijing Industrial Company Ltd and others* and C-495/09 *Nokia Corporation v Her Majesty's Commissioners of Revenue and Customs*, opinion of the AG Cruz Villalon submitted to the Court of Justice of the European Union on 3 February 2011.

[121] ibid paras 48- 50 and 70.

[122] ibid paras 102-112.

### 3.2 GOODS EXCLUDED FROM THE SCOPE OF THE REGULATION

This being said the general provision for IPR infringements there are some cases in which infringing goods may be exempted from the application of the enforcement provisions. TRIPS agreement footnote 13 states that there shall be no obligation to apply such procedures to imports of goods put on the market in another country by or with the consent of the right holder, or to goods in transit.

Exemption of the goods put on the market in another country by or with the consent of the right holder is consistent with the principle of exhaustion of IPR's in EU law. The exhaustion of IPRs deals with striking a balance between exclusive rights that are granted to IPR owners and the functioning of the free movement of goods within the European internal market[123].

Following this principle, BMR art. 3(1) indicates that the Regulation will not be applied to;

> Goods bearing a trademark with the consent of the holder of that trademark or to goods bearing a protected designation of origin or a protected geographical indication or which are protected by a patent or a supplementary protection certificate, by a copyright or related right or by a design right or a plant variety right and which have been manufactured with the consent of the right-holder but are placed in one of the situations' entailing application of the border measures as referred to in Article 1(1) without the latter's consent.
>
> It shall similarly not apply to goods referred to in the first subparagraph and which have been manufactured or are protected by another intellectual property right referred to in Article 2(1) under conditions other than those

[123] Abbott, Cottier and Gurry (n 8) 605-606.

agreed with the right-holder.[124]

Small quantities of goods of a non-commercial nature contained in travellers' personal luggage or sent in small consignments may also excluded from the application of the border enforcement measures[125] on the condition that they are within the limits of the duty-free allowance and there are no material indications to suggest the goods are part of commercial traffic[126].

### 3.3 ASSESSMENT OF THE INFRINGEMENT

Following from the underlying principle of territoriality and TRIPS art.51 footnote 14 referring to the law of the country of importation in defining counterfeit/ pirated goods, EU customs authorities are entailed to demand adequate evidence for a prima facia IP infringement based on the country of importation when applying BMR to transit cases.[127] Nonetheless it will be the national law of the Member State, within the territory of which the goods are subject to customs action, which will apply when deciding whether an intellectual property right has been infringed.[128] This being quite straightforward for the cases where the country of importation (and destined for free circulation) and the country where the goods are subject to customs action overlap with each other is not so clear under the transit procedure.

In the external transit procedure, the goods are considered to have never entered the Community and could not be subject to any suspension or detainment as

[124] A typical example is the goods manufactured under a license agreement between the right holder and manufacturer who do not comply with the requirements of the agreements concerning for example quality, quantity or territorial limitations; Vrins and Schnieder, *Enforcement of IPRs* (n 27) 111

[125] TRIPS art.60; ACTA art.14.

[126] BMR art. (3) 2.

[127] Jaeger, Ruse Khan, Drexl and Hilty (n 14)12.

[128] BMR art.2(1) and art. 10(1)

long as there is no real threat of trade diversion onto the domestic market of the transit country.[129] In this regard one may argue that application of the law of the transit country also incases where there is no real threat of trade concludes BMR to be inconsistent with art.52.[130] Despite the arguments the application of national law to counterfeit goods in transit has shown an increasing graphic until now. Customs Communication on a Customs response to the latest trends in counterfeiting and piracy[131] has set that "transshipment is of growing concern because fraudsters break to disguise the origin of the goods and reported cases in which the Community itself was used to do so (e.g. fake medicines from Asia transshipped through the EU on route to Africa)"[132] Therefore it is great importance to form the right balance between to narrow and to wide interpretation of the 'real threat of trade diversion'. If drawn to narrow the fraudsters may find a leeway to put their goods free circulation without ever being subject to the customs action provided under BMR and to wide interpretation would lead to excessive and inconsistent applications.

In line wit the basic principle of territoriality some authors argue that; a balance could be established by prohibiting the placing in transit of goods which would infringe an IPR under the law of the country of transit, unless owner or consignor of the goods can provide with sufficient evidence that the goods are not destined for the internal market."[133] In my opinion implementation of such system would be more than a welcoming approach towards solutions to the current problems.

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[129] *Polo/Lauren* (n 743).

[130] Jaeger, Ruse Khan, Drexl and Hilty (n 14) 16.

[131] Communication From The Commission To The Council, The European Parliament And The European Economic And Social Committee on a Customs response to latest trends in Counterfeiting and piracy, Brussels, 11.10.2005 COM (2005) 479 final.

[132] ibid 6.

[133] Vrins and Schnieder, 'EU-Phony or Cacophony?' (n 101) 8.

Hezewijk argues that, linking counterfeiting to the trademark rights in the country of importation is not an expedient settlement as it is within the bounds of possibility that a fake good would not constitute a 'counterfeit good' in the country of manufacture and turn out to be a 'counterfeit good' with an import procedure.[134] Although this might be true where the trademark or copyright is not protected in the country of export, in practice it wouldn't change much as long as the country of export has also adapted measures to suspend the release on infringing goods for export.

By all manner of means exhaustion and parallel trade should not be confused with the transit cases. The application of the exhaustion principle is limited to the cases in which the right-holder has at least consented to the sale in the country of exportation while in the case of a transit of a counterfeit good the are either or both produced and sold without the consent of the right-holder.[135]

### 3.4 US BORDER MEASURES FOR COUNTERFEIT GOODS IN TRANSIT

In their attempts to prevent release or parallel importation of the counterfeit or pirated goods, the US trademark proprietors may rely on section 526 of the Tariff Act, sections 32, 42 and 43(a) of the Lanham Act[136] and section 602(a) of the Copyright Act corresponding to the Community Trademark Regulation, Copyright Regulation and the CCC.

The typical attitude of the Courts against parallel import of goods produced by a company affiliated with the US trademark owner, was to apply the Tariff and

[134] Hezewijk (n 40) 8.

[135] Drexl (n 91) 16. See also; *Class International v Colgate-Palmolive* (n 103) para 29.

[136] United States Code, Title 15, Chapter 22, Subchapter III, § 1127, United States Code, Title 15, ('the Lanham act')

Lanham Act and allow the goods to be imported unless there is a material difference between the foreign and US version of the goods.[137] The Copyright Act, by contrast, has afforded relief in some situations where an aspect of the product or product's packaging is protected by copyright.[138]

Article 1114 of the Lanham Act provides that anyone who uses or intends to use a registered trademark "in commerce" without the consent of the proprietor is liable to action by the trademark proprietor. The term 'use in commerce' has been defined as;

> The bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce on goods when… (B) The goods are sold or transported in commerce.[139]

In this regard it is possible to say that the 'use in commerce' as required under US legislation is the equivalent of the ' use in the course of trade' in the EU legislation.

The case law shows that in contradiction to their European colleagues US judges are in the opinion that, "entry of infringing goods into a foreign trade zone is a sufficient act in commerce to trigger subject matter jurisdiction in federal courts under the Lanham Act, which, by definition, can only be brought to vindicate marks that enjoy protection in the United States by virtue of proper registration."[140]

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[137] Mary Kevlin, 'Parallel Imports-Trademark and Copyright Considerations in Worldwide Imports and Exports: The United States' [1997] < http://www.cll.com/articles/parallel-imports-trademark-and-copyright-considerations-in-worldwide-imports-and-exports-the-united-states> date accessed 07 August 2011

[138] ibid

[139] Art. 1127 of the Lanham Act

[140] *Ocean Garden, Inc. v. Marktrade Co*. [1991] 953 F.2d 500, 502 (9th Cir. 1991) supra note 185, 505.

## 3.5 ADMINISTRATIVE PROCEDURES

### 3.5.1 Ex- officio Action by the Custom Authorities

In most of the time counterfeiting and piracy is hard to notice and therefore tricky to deal with. Counterfeiters usually take devious ways to overreach the right holders. It is then of great value for the right-holders to be able to rely on the customs authorities ex officio interventions.[141] Taking these concerns in considerations TRIPS art.58 provision entitles members to adapt ex officio measures where decided. BMR art.4 takes benefit form this provision and, designates ex officio actions of the customs authorities as the second option, in addition to the right holders application procedure, against goods suspected to infringe an intellectual property rights.

An ex officio procedure will typically start with routine checks, where in the absence of a valid application for action the officers will consult to the official database or liaise the relevant Intellectual Property Organization to find out whether the goods are protected by an IPR.[142] In the case of copyrights and well known trademarks where no registration is needed for protection the customs authorities will have to use their expertise and discretion to find out if there is sufficient grounds for suspecting. If there is a valid registration for the IPR in concern than;

> In accordance with the rules in force in the Member State concerned, the customs authorities may, without divulging any information other than the actual or supposed number of items and their nature and before informing the right-holder of the possible infringement, ask the right-holder to provide them

[141] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 116.

[142] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 116.

with any information they may need to confirm their suspicions.[143]

BMR art.4 states that the customs authorities may act ex officio to take action and suspend the release of goods or detain them, in a situation where conditions for action by the customs authorities (BMR art 1) are satisfied; provided that the right holder has yet not lodged and application and the authorities have the 'sufficient grounds for suspecting' that the goods infringe an intellectual property.

The current BMR[144] departs from the previous[145] regulation on the point that while the latter required infringement of an intellectual property right to 'appear evident' the prior finds it enough that there is a suspicion. Again this may have been caused by the legislator's incentive to engage customs authorities with less IPR arguments as possible. According to the Community legislator small and medium sized enterprises shall also benefit form this amendment, as it will give them the opportunity to access the facility.[146]

### 3.5.2 Application by the Right-holder

#### 3.5.2.1 Lodging and Content of the Application

The enforcement of border measures depends to a large extent on the right-holders initiative and his interest to defend the exclusive rights conferred to an intellectual property right[147]. A clear indication to this is seen under TRIPS art. 52,

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[143] BMR art 4(2).

[144] BMR art.4.

[145] Art. 4 of the ex- Council Regulation (EC) No 3295/94 Laying Down Measures To Prohibit The Release for Free Circulation, Export, Re- Export or Entry for a Suspensive Procedure of Counterfeit And Pirated Goods [OJ No. L302. 1994]

[146] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 118.

[147] Daele ( n 70) 217.

which holds that the right holder must lodge an application to activate customs procedures provided under art.51. This application requires;

- To be accompanied with adequate evidence to satisfy the competent authorities that, under the laws of the country of importation[148], there is prima facie an infringement of the right holder's intellectual property right.
- To supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities.

Although 'sufficiently detailed information' will be determined on case-by-case basis, it apparent that the more information will lead to a faster and more efficient process.[149] On the other hand when requiring for further information the customs authorities have to be careful on not to ask for excessive or difficult to obtain information as it would be contrary to the general obligation on not to create barriers to legitimate trade provided under art.41 (5).[150]

The TRIPS provision is the minimum requirement and clearly not specific on what amounts to 'sufficiently detailed information' and how further the customs authorities could go on asking for additional information. To set these ambiguities away and leave the customs authorities with as lesser discretion as possible the Regulation 1383/2003 exceeds the minimum requirements and provides detailed rules about the form, content, and time limits for the right holders application.

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[148] "This raises a question on the fact that the detention/seizure of generics under the BMR has always been based on the domestic IP law of the EU Member State through which these goods transit. Applying the law of the transit country for judging IP infringements, these measures thus are only consistent with Art. 52 1st sentence TRIPS if the term 'country of importation' under Art. 52 TRIPS includes transit countries." Jaeger, Ruse Khan, Drexl and Hilty (n 14).

[149] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 50.

[150] ibid 50.

The mandatory information required is[151];

- Any accurate and detailed technical description of the goods (Special features of genuine goods, country of production, contact details of the producers and distributors, value of the goods, packaging, licenses conferred on the right etc.);
- Any specific information the right-holder may have concerning the type or pattern of fraud (documents, photos etc. concerning and in what sense does the fraud intrude the protected rights);
- The name and address of the contact person appointed by the right-holder.
- Right holder seeking for customs action should also submit any that might help to support his case.

In any given case the application for action must contain; the declaration required from the applicant under Article 6 and proof that the applicant holds the right for the goods in question (such as a copy of the registration certificate).[152] This raises a question on the status of the well-known trademarks and copyrights where no registration before a government authority is required to gain the ownership of the right.

Well-known trademarks are trademarks enjoying an extensive reputation in the country of registration or use and therefore considered to be worth protecting even if not registered under the national or Community law.[153] In this regard the suspension of goods alleged to be infringing a well-known trademark requires custom authorities

[151] See also; Intellectual Property Rights – Manual for lodging of applications for customs action, <http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/right_holders/manual_en.pdf > date accessed 07 August 2011.

[152] BMR art.5 (5)

[153] CTMR art.8 (2)(c) refers to Paris Convention art.6 bis providing that; the members are obliged to prohibit use of a trademark similar to a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark enjoying benefits under the Convention and used for identical or similar goods.

to develop some 'expertise or the development of close liaison with the IP authorities' as they will be obliged to determine the well-known nature of the mark and in the absence of the registration documents to determine whether the goods which are subject to application, infringe the well-known trademark.[154]

In the case of copyrights, related rights or design rights, which are not registered, the right-holders have to demonstrate credibly that a claim to a right may be made (e.g. affidavit, declarations concerning the authorship, where available certificates of registration of copyrights).[155]

**3.5.2.2 Declaration of Liability by the Applicant**

Article 53 of the TRIPS agreement grants the competent authorities with the power and the discretion to require the applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. The security or equivalent assurance will be required where the court is laboring under some degree of uncertainty and may not require any security where it is sure of the infringement.[156] In most cases, to compensate the loss, the amount of the security will be correlation with the scale of the infringers however this may not be the case in every situation as other factors like the supporting documents and information submitted by the right holder may indicate that the infringement is more than likely.[157] In any case such security or equivalent assurance shall not

[154] Michael Blakeney, 'Guidebook on Enforcement of IPR's' (n 33) 38; 'Enforcement Of Intellectual Property Rights' (n 11) 38-39.

[155] Manual for lodging of applications for customs action (n 151) 6.

[156] Blakeney, 'Guidebook on Enforcement of IPR's' (n 33) 38; 'Enforcement Of Intellectual Property Rights' (n 11) 39.

[157] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 52.

unreasonably deter recourse to these procedures.[158]

The projections of this article in the EU level are Art.6 and 14 of the BMR. Art.6 obliges applicant to fill in 'acceptance of liability' to lodge an application for customs action. The pre- 2003 EC regime did require a security; but the rule was changed to benefit small and medium size enterprises.[159]

### 3.5.3 Further Procedures

After customs procedures being initiated by the customs office or the trademark owners application and the goods are to be found infringing IPR's based on the evidence submitted by the trademark owner there are several ways to go on with the goods. The owner of the seized goods may relinquish them so that they can be destroyed under customs control on the grounds of simplified procedure introduced in BMR art.11. Another way would take place on the grounds of BMR art.13 (1) where the IPR owners apply to the judicial authority within a fixed term of 10 days to determine whether or not an IP infringement has taken place in substantive proceedings. Where the right-holder takes no action or fails to provide adequate evidence the detention of the goods finishes and the goods will be released for further procedures.

Pursuant to the CJEU's case law, infringement in transit cases will only be found if it can be established that the goods on which the mark is used are subject to activities in the course of which they will necessarily be brought into free circulation

[158] TRIPS art.53(1)

[159] Daele (n 70); Blakeney 'Guidebook on Enforcement of IPR's' (n 33) 38; 'Enforcement Of Intellectual Property Rights' (n 11) 24.

on the common market.[160] As the required evidence may be very difficult, if not impossible to adduce goods suspected of infringement and held in detention on the basis of the (present) BMR may often have to be released again in the course of subsequent infringement procedures.[161]

Art.1 (1) of the BMR sets out the conditions for action by the customs authorities where the goods are suspected of infringing an intellectual property right, and is therefore not to be not to be confused with that of art. 16 of the Regulation; which provides that, once goods have been found to infringe such a right, subsequent to a customs intervention according to art.9 and the end of the proceedings referred to in art. 13, they may not be cleared by customs, or placed onto the market or simply into circulation.[162]

**CONCLUDING REMARKS**

Acknowledged by the Commission, we by now know that it is a common trend amongst fraudsters to use the transit through EU procedure as a way to disguise the infringing origin of goods and to give them a false European origin. It has lately been recognized by the AG Cruz Villalon that the "fraudsters can utilize from the suspensive measures for the entry of goods to be illegally marketed in the EU,

[160] *Class International* and *Montex* that it is for the trademark proprietor to prove the facts, which would give grounds for exercising the right of prohibition of counterfeit goods being released on the market

[161] Planck Institute for Intellectual Property and Competition Law, 'Study on the Overall Functioning of the European Trade Mark System' (n 29) 111.

[162] Vrins and Schnieder, *Enforcement of IPRs* (n 27) 73.

inasmuch as the goods are physically in the EU territory and as nothing obliges the consignee to declare their destination or even reveal his identity."[163]

The legislation and case law on the issue of seizure of counterfeit goods in transit through EU does not offer a certain answer. Although the BMR was thought to be a solution and promote the harmonization of the legal framework in EU it has not given the effect desired from it. The uncertain and un-harmonized framework has lead to jurisprudence where courts holding differ from case to case depending on their interpretation of the legislation.

Perhaps definitional issues are the main sources of the aspect. Although it is clear that the courts make a distinction between infringement of trademarks and copyright in one hand and counterfeit and pirated goods on the other it doesn't take to a better understanding of it. As suggested by most of the commenters[164] I do agree that EU Commission has to call for a better definition of 'counterfeit good'. The simplest amendment would be to insert the 'use in trade' to the definition of the counterfeit goods so that it would be included within the scope of infringement in means of CTM art.9 and TMD art.5.

There are clear indications that the courts distinguish mere transit and other forms of passage. However the interpretation of what weights to a mere transit and what does not is not clear. So far the courts position on seizure of counterfeit goods has shifted between allowing seizure of goods on the condition that the applicant provides with solid evidence of a third party action to release in free circulation and allowing seizure on the fact that the external transit is not completely devoid of effect

[163] Opinion of AG Cruz Villalon on *Koninklijke Philips Electronics and Nokia* (n 120)

[164] Hezewijk (n 40) 9; Hutchinson (n 63); Max Planck Institute, 'Study on the Overall Functioning of the European Trade Mark System' (n 29) 111; Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 25; Vrins and Schnieder, 'ECTA Position Paper' (n 119) 10.

on the internal market. Followed by the idea that the final agenda is to benefit from the trademarks distinguishing function and the impression it leaves in the consumers, those who took the second view argue that where goods are unlawfully labeled with a trademark there would eventually be an infringement. Eventually the suggestion is to amend European trademark law in a way that would ' provide proprietors with the right to intervene in the country of transit when counterfeit goods are transported through the territory of the Member State (or European Union in cases of CTMR's)'[165]. I can see that underlying incentive in those who are in favor of this opinion is to adapt a zero tolerance approach in the way to take effective precautions against counterfeiting. Although there is the undesirable outcome that the trademark proprietors will be prevented from full protection of their rights, I do not precisely agree with this view since it dissembles the general principle of territoriality.

In any event all the indications points out that the meaning of the BMR and especially recital 8 should be cleared on the conditions for customs seizure of counterfeit goods in transit. The suggestion[166] to maintain the applicability of the manufacturing fiction to genuine acts of transit would be the system to be applied in legal environment whereby the practical importance of territoriality is abolished with a harmonized trademark law. But until than I must agree with AG Villalon in his opinion that the customs may seize fakes in transit only if there are sufficient grounds for suspecting that they are counterfeit goods and, in particular, that they are to be put on the market in the European Union. No matter the incentive is, it is in my opinion

[165] Max Planck Institute, 'Study on the Overall Functioning of the European Trade Mark System' (n 29) 101.

[166] Vrins and Schnieder, 'ECTA Position Paper' (n 119) 11; Jaeger, Ruse – Khan, Drexl and Hilty (n 14) 24; Hutchinson (n 63).

that the application of the manufacturing fiction based on an assumption is over extensive and against the equity.

Regardless of the desired outcome Justice Kitchin's acknowledgement that the "that this result is not satisfactory. I can only hope it provokes a review of the adequacy of the measures available to combat the international trade in fake goods by preventing their transshipment through Member States" represents the common view and wish of those who had given a thought on the issue.

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